The role of private equity in the recovery in France and Europe: an opportunity for investors

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VIEWS

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Executive Summary

The health crisis has demonstrated the resilience and profitability of private equity in France and, more broadly, in Europe: capital raised in 2020 in Europe exceeded €100 billion, a quarter of which was raised in France.

Over 10 years, the annual return on private equity in France is 60% higher than the return on the CAC 40, and over the last three years, private equity returns averaged more than 13%.

This asset class has therefore proved to be both profitable and resilient. It would benefit from being more widely used during the exit from the current crisis, to enable Europe to close the gap with the United States and China and help France to contain its external deficit and reverse the adverse trends of deindustrialisation and public over-indebtedness.

France's current account deficit reflects the lack of supply linked to the country's large-scale deindustrialisation over the last twenty years.

To reduce its deficit, France must create 1 million productive jobs in high-growth midcaps and SMEs and restructure a seventh of its economy.

This is where private equity has a historic opportunity and mission: France must triple its mobilisation of private equity within five years. Institutional investors, whether public or private, purely financial or mutualist, must take action to regenerate France's productive fabric, particularly in the tech and biotech sectors.

Introduction

Private equity has been growing very rapidly in France and Europe over the last few years. It has weathered the Covid-19 crisis well and is expected to rebound strongly in 2021. Its medium-term outlook is very positive.

Over 10 years, the annual return on private equity in France is 60% higher than the return on the CAC 40 and almost double the return on real estate.

Despite the robust growth in this area, the amounts invested in private equity will have to increase significantly in order to achieve a successful transformation in France.

I- THE ECONOMIC LANDSCAPE IN DEVELOPED COUNTRIES: EUROPE LAGGING BEHIND AND FRANCE IN THE THROES OF DEINDUSTRIALISATION

The scars left by the 2020 crisis will be all the deeper since not all economic areas have been affected in the same way.

1. Europe is lagging behind: its global economic clout is diminishing

In total, from 2020 to 2022 - taking cumulative growth over 3 years rather than the average annual growth rate - **the eurozone's economy is expected to grow by 2.1%,** compared with 2.6% for Germany, **1.7% for France**, 1.9% for Spain, 0.5% for the UK, 0.8% for Japan and 6.6% for the United States. Within the eurozone, Italy continues to lose ground in relative terms, even though it should benefit from the European stimulus plan in 2022-2023.

Over the 2020-2022 period, in terms of total growth, the eurozone's economy is set to lose 4.5 percentage points relative to the United States and more than 10 percentage points versus China, underscoring Europe's dwindling clout in the global economy.

Figure 1 - Annual GDP growth, 2017-2023 (%)

	2017	2018	2019	2020	2021	2022	2023	C 20--22
Eurozone	2.6	1.9	1.3	-6.6	4.3	4.4	2.1	2.1
Germany	2.6	1.3	0.6	-4.9	3.4	4.1	1.5	2.6
France	2.3	1.8	1.5	-8.1	5.6	4.2	2.0	1.8
Italy	1.7	0.9	0.3	-8.9	4.2	4.4	2.2	-0.3
Spain	3.0	2.4	2.0	-10.8	5.9	6.8	2.8	1.9
United Kingdom	1.7	1.3	1.4	-9.8	5.0	5.3	2.5	0.5
Japan	1.7	0.6	0.3	-4.8	3.1	2.5	1.8	0.8
United States	2.3	3.0	2.2	-3.5	6.3	3.8	3.1	6.6

Source: European Commission forecasts for 2021-2022, author for 2023 and cumulative 2020-2022 forecasts

2. France's deficit: a symptom of deindustrialisation

France is struggling to keep up with Germany, especially as part of its growth is financed with public debt. In 2019, France's deficit was 4.6 percentage points of GDP higher than that of Germany, and the 4-point gap in GDP remains in place for the 2020-2022 period, implying that France's budget problem is at the root of the crisis. France's public finances have long been in crisis.

The country faces a huge deficit not only in its public accounts, but also in the current account of its balance of payments. The French government's average annual deficit was 3.3 percentage points of GDP for the 2002-2006 period, 5 points of GDP for 2007-2011, 4 points of GDP for 2012--2016, 2.8% of GDP for 2017-2019 and 8.1 points of GDP for the 2020-2022 period. France's government debt was 38 percentage points of GDP higher than Germany's in 2019 and the gap is expected to widen to 46 percentage points of GDP in 2022.

France is the only major eurozone country showing an external deficit with an annual current account deficit of 1.6 points of GDP over the 2020-2022 period. Germany has an annual surplus of more than 7 points of GDP, while Italy's annual surplus stands at 3 points of GDP and Spain has a slight surplus. These figures point to **a lack of supply in France, linked to large-scale deindustrialisation over the last twenty years.**

Figure 2 - Public deficit, 2018-2022 (% of GDP)

	2018	2019	2020	2021	2022
Eurozone	-0.5	-0.6	-7.2	-8.0	-3.8
Germany	1.8	1.5	-4.2	-7.5	-2.5
France	-2.3	-3.1	-9.2	-9.4	-6.0
Italy	-2.2	-1.6	-9.5	-11.7	-5.8
Spain	-2.5	-2.9	-11.0	-7.6	-8.2
United Kingdom	-2.2	-2.3	-12.3	-11.8	-5.4
Japan	-2.2	-2.9	-13.2	-9.5	-4.1
United States	-6.2	-6.6	-16.1	-16.0	-6.8

Source: European Commission forecasts for 2021-2022

Figure 3 - Government debt, 2018-2022 (% of GDP)

	2018	2019	2020	2021	2022
Eurozone	87.7	85.8	100.0	102.4	100.8
Germany	61.8	59.7	69.8	73.1	72.2
France	98.0	97.6	115.7	119.0	118.2
Italy	134.4	134.6	155.8	159.8	156.6
Spain	97.4	95.5	120.0	119.6	116.9

Source: European Commission forecasts for 2021-2022

Figure 4 - Current account balance, 2018-2022 (% of GDP)

	2018	2019	2020	2021	2022
Eurozone	3.4	3.1	3.0	3.1	3.1
Germany	7.6	7.3	7.2	7.8	6.9
France	-0.9	-0.8	-2.0	-1.7	-1.2
Italy	2.5	3.2	3.5	2.9	3.1
Spain	1.9	2.1	0.7	-0.1	0.3
United Kingdom	-3.7	-3.1	-3.5	-5.0	-4.8
Japan	3.5	3.7	2.6	3.3	3.2
United States	-2.3	-2.3	-2.9	-3.4	-3.4

Source: European Commission forecasts for 2021-2022

3. Inflation and interest rates set to stabilise over an 18-month horizon

The 2021-2022 period will be catch-up years following the downturn in 2020 and stagnation at the beginning of 2021 due to the health crisis. Assuming no further resurgence of the pandemic, the eurozone and France should erase the worst impacts of the crisis in the space of a year, by mid-2022. However, the growth that should have taken place from **spring 2000 to spring 2022** will not be made up, which translates into **a loss of capital of around €100 billion** for French companies and an **increase in public debt of 20 points of GDP** in France over this period.

The European Commission's technical assumptions do not forecast any inflation through to the end of 2022. Nominal long-term interest rates are expected to remain low until autumn 2022, but are likely to rise by 1 point in the following 12 months[2]. **After the French elections, pressure to reduce the government deficit in France will increase.** However, long-term **real rates** are likely to remain at zero or slightly negative, even in the alternative scenario.

The increase in consumer prices reached 5% year-on-year in May 2021 in the United States, after 4.2% in April and 2.6% in March. Adjusted for seasonal fluctuations, the CPI index grew by 0.6% in May versus 0.8% in April. Core inflation (CPI excluding energy and food) rose to 3.8% in May after 3% in April. On a monthly basis, the underlying price index rose by 0.7% in May after 0.9% in April. The used car and truck price index jumped 7.3% in May (versus 10% in April), contributing one-third to the CPI increase.

Figure 5 – Technical assumptions: rates and exchange rates

	2019	2020	2021	2022
CPI deflator	1.1	0.5	1.6	1.3
GDP deflator	1.7	1.5	1.2	1.4
Wages charged	2.0	0.6	2.2	2.4
Unit labour cost	1.9	4.4	-0.7	-0.6
USD / EUR	1.12	1.14	1.2	1.2
3-month Euribor	-0.4	-0.4	-0.5	-0.5
10-year German Gvt bonds	-0.3	-0.4	-0.5	-0.5

Source: European Commission

Figure 6 - Alternative scenario: Technical assumptions (%)

		2021	2022
CPI deflator	1.6	1.5	
GDP deflator		1.2	1.6
Wages charged	2.2	2.6	
Unit labour cost		-0.7	-0.4
USD / EUR		1.2	1.25
3-month Euribor		-0.5	-0.2
10-year German Gvt bonds		-0.5	-0.2

Source: Author

[2] The increase in consumer prices reached 5% year-on-year in May 2021 in the United States, after 4.2% in April and 2.6% in March. Adjusted for seasonal fluctuations, the CPI index grew by 0.6% in May versus 0.8% in April. Core inflation (CPI excluding energy and food) rose to 3.8% in May after 3% in April. On a monthly basis, the underlying price index rose by 0.7% in May after 0.9% in April. The used car and truck price index jumped 7.3% in May (versus 10% in April), contributing one-third to the CPI increase.

II- THE PRIVATE EQUITY LANDSCAPE IN FRANCE AND EUROPE: LAGGING BEHIND CHINA AND THE UNITED STATES

1. Private equity in Europe: a resilient and profitable asset class

In Europe, the **capital raised** by 672 funds reached €100.5 billion in 2020 (private equity only) versus an average of €104.7 billion for the 2017-2019 period and €114.5 billion in 2019. In 2020, the **amounts raised** by buyout funds reached €62.3 billion, versus €15.5 billion for venture capital funds and €15.4 billion for growth funds. Generalist and mezzanine funds represented €7.3 billion.

Investments totalled €88.1 billion in 8,183 companies, of which nearly €60 billion for buyout funds (1,181 companies), €14.5 billion (1,886 companies) for growth funds and €12 billion (5,005 companies) for venture capital funds. **Divestments** totalled €23.4 billion in 2020, a decrease of one third versus 2019, as the health crisis blocked exits. Most of this decline relates to divestment by buyout funds.

The health crisis therefore had a greater impact on divestment than investment: fundraising and private equity investments remained stable in 2020.

Figure 7 - Fundraising in the 2017-2020 period in Europe

(€ billions)

	2017	2018	2019	2020
Venture capital	10.3	12.6	16.7	15.5
Buyout	72.7	68.3	80.9	62.3
Growth	7.4	10.1	10.9	15.4
Mezzanine	1.0	0.8	0.4	0.3
Generalist	5.3	11.0	5.5	7.0
Total	96.6	102.9	114.5	100.5

Source: Invest Europe (2021)

Figure 8 – Investments by private equity players in Europe, 2017-2020

(€ billions)

	2017	2018	2019	2020
Venture Capital	7.2	8.9	11.2	12.0
Buyout	53.2	60.2	67.4	59.7
Growth	11.9	14.1	19.5	14.5
Other	3.0	1.8	2.3	1.9
Total	75.3	85.0	100.4	88.1

Source: Invest Europe (2021)

Figure 9 – Divestments by private equity players in Europe, 2017-2020

(€ billions)

	2017	2018	2019	2020
Venture Capital	2.1	2.3	2.7	2.3
Buyout	33.9	25.0	26.0	15.6
Growth	6.8	8.2	5.7	4.4
Other	1.7	1.7	1.0	1.1
Total	44.5	37.2	35.4	23.4

Source: Invest Europe (2021)

2. Covid-19 crisis and private equity in France: a technical decline followed by a return to normal

In France, the **capital raised** by private equity players reached €23.5 billion in **2020**, of which €18.5 billion for private equity funds in the strict sense and €5 billion for infrastructure funds.

Investments amounted to €23.1 billion in 2,148 companies and infrastructure projects, of which €17.8 billion in 2,027 companies for private equity funds in the strict sense and €5.3 billion in 121 infrastructure projects. 2020 shows a technical decline relative to the trend observed from 2017 to 2019, due to the Covid-19 crisis. However, 2021 is seeing a return to the pre-crisis trend.

French investors accounted for 63% of **funds raised** in 2020, versus 49% on average over the 2017-2019 period, due to the smaller presence of foreign investors during the pandemic. European funds outside France were present (26% of funds raised in 2020, versus 27% on average over the 2017-2019 period), but funds raised outside Europe fell temporarily due to the health crisis (11% versus 24%).

Private equity funds raised in 2020 can be broken down **by usage** as follows: buyout capital €7.97 billion, growth capital €7.17 billion, innovation capital €3.38 billion, and turnaround capital €32 million, giving a total of €18.55 billion. **Private equity funds raised** in 2020 broken down **by subscriber** are as follows: insurance and mutual companies 26%, funds of funds 17%, public sector 15%, individuals and family offices 13%, banks 10%, pension funds and superannuation schemes 9%, industrials 4%, sovereign funds 4%, other 2%. **Infrastructure funds raised** in 2020 broken down **by subscriber** are as follows: insurance and mutual companies 42%, pension funds and superannuation schemes 21%, banks 14%, industrials 7%, sovereign funds 6%, funds of funds 5%, public sector 4%, individuals and family offices 1%.

Funds invested reached €23.1 billion in 2020 compared with €21.3 billion on average for the 2017-2019 period. These investments went to 2,148 companies and infrastructure projects in 2020 compared with an average of 2,356 in the 2017-2019 period. **Divestments** resulted in the sale of 1,322 companies for €7.1 billion and 40 infrastructure projects.

In other words, private equity in France followed the European trend, namely a slight decline in divestments, and hence exits, with fundraising and investment remaining stable or increasing. A positive effect of the health crisis was that it increased the weight of French investors in total funds raised by nearly 15%, as a direct result of reduced investment by foreign funds (outside Europe).

Figure 10 - Fundraising in France, 2017-2020

(€ billions)

	2017	2018	2019	2020
Private equity	16.5	18.7	20.9	18.5
Infrastructure	4.2	12.1	9.9	5.0
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Total	20.7	30.8	30.8	23.5

Source: France Invest (2021)

Figure 11 – Investments by private equity firms in France, 2017-2020

(€ billions)

	2017	2018	2019	2020
Private equity	14.3	14.7	19.3	17.8
Infrastructure	4.5	3.9	7.2	5.3
	------	------	------	------
Total	18.8	18.6	26.5	23.1

Source: France Invest (2021)

Over the long term, French private equity shows high, resilient returns. Over 15 years, the annual return on private equity is almost double that on the CAC 40, dividends reinvested, and 50% higher than real estate returns. Over 10 years, the annual return on private equity is 60% higher than that on the CAC 40 and nearly twice the return on real estate. Over three years, the average annual return on private equity was 13.3%, of which 8.1% for venture capital, 11.6% for growth capital and 16.5% for buyout capital.

Figure 12 - Return on private equity over 15 years in France

(Average annual return in percentage terms over the period 2005-2019)

Private equity	**11.4%**
CAC 40 *	6.0%
Real estate	7.4%
Hedge funds	3.6%

** 15-year performance of the CAC 40 with dividends reinvested*

Source: Invest Europe (2021)

Figure 13 - 3-year returns on asset classes in France

(Average annual return in percentage terms over the period 2017-2019)

Private equity	**13.3%**
Venture capital	8.1%
Growth capital	11.6%
Buyout capital	16.5%
Generalist funds	9.8%

Source: France Invest (2021)

The following figure shows the sharp increase in funding for companies in the Medical/Pharma/Biotech sector from 2019 to 2020 (48%), reaching **€4.29 billion** invested in 321 companies.

The IT/Digital and Telecoms/Communications sectors saw their funding climb 27% **to €4.20 billion** invested in 627 companies.

Conversely, funding for consumer goods & services and industrial goods & services plunged 28% to €7.53 billion, provided to 845 companies.

The other sectors saw their financing fall from €2.70 billion to €1.73 billion, with 234 companies on the receiving end.

The Medical/Pharma/Biotech and Digital/Telecoms sectors combined saw their funding by French private equity players surge 37% to €8.49 billion in 2020, while private equity overall fell by 8%. Some 71% of these funds, i.e. €6 billion, was invested in French companies.

Figure 14 - Breakdown of investments, 2019-2020

	2019	2020	No. of companies in 2020
Private equity	**19.30**	**17.75**	**2 027**
Medical/Pharma/Biotech	2.90	4.29	321
Consumer goods and services	5.34	3.89	453
Industrial goods and services	5.06	3.64	392
IT and digital	2.86	3.51	564
Financial Services	1.70	1.13	109
Telecoms and Communications	0.44	0.69	63
Civil engineering and Construction	0.43	0.33	51
Energy	0.41	0.18	53
Other sectors	0.16	0.09	21

Source: France Invest (2021)

3. The biotech sector: Europe overtaken by the United States and China

The crucial issue is whether France and the eurozone can create new activities in the coming years. Let's take a closer look at what is happening in the Tech and Biotech sector.

The total amounts raised through **IPOs by biotechs** over the 2010-2020 period are $3.9 billion in Europe, $27.9 billion in the Asia-Pacific region and $51.6 billion in the United States, i.e. **the Asia-Pacific region raised 10 times more than Europe and the United States 18 times more.**

The total amounts of **follow-on capital for biotechs** over the period 2010-2020 reached $12.2 billion in Asia Pacific, $12.12 billion in Europe and $145.93 billion in the United States, i.e. **13 times the amount recorded in Europe.**

The total amounts from IPOs in **biotechs** over the 2016-2020 period reached $710 million in Europe versus $38.7 billion in the United States, i.e. 53 times higher.

The cumulative amounts from IPOs in **the IT sector** over the period 2016-2020 reached $27.6 billion in the European Union and $34.8 billion in the United States, i.e. 1.3 times higher**. The figures show that in recent years European funds have invested comparable amounts to their US peers in the IT sector, but not in the biotech sector.**

A comparison between the three major players in the **biotech sector in 2020** shows that China invested more than Europe ($6.4 billion versus $5.2 billion), while the United States invested $23.7 billion.

Investments in the **IT sector in 2020** totalled $38.4 billion in Europe, versus $42.7 billion in China and $135 billion in the United States.

III- WHAT POLICY WOULD JUMP-START SUSTAINABLE GROWTH IN FRANCE?

The 2.5 point decline in activity in 2020-2021 is the average of a 2% increase for companies providing one half of GDP (market sector) and a 7% decline for companies providing the other half. Even though the level of bankruptcies has fallen thanks to government aid, the percentage of "zombie" companies (those unable to repay their debt) can be estimated to have risen from 7% pre-crisis to 11% post-crisis.

The key issue for the French economy in 2021-2022 is the large-scale restructuring of one seventh of the economy and creating new growth and export sectors so as to eliminate the external deficit and create jobs in the new economy over the next 5 years.

1. Building back with high-growth SMEs and midcaps

France will not eliminate its external deficit without creating a million productive jobs in high-growth midcaps and SMEs. In 2020, France had **5,700 midcaps** (i.e. companies with 250 to 5,000 employees and revenues under €1.5 billion), including approximately **1,200 industrial midcaps** employing 38% of the industrial workforce. This compares to 12,500 midcaps in Germany, 10,000 in the United Kingdom and 8,000 in Italy.

Midcaps account for 19.8% of salaried employees in the market sector (3.4 million out of 17.2 million[3]), 23% of private R&D spending, 27% of market added value and 30% of corporate investments. Some 34% of their revenues come from exports, representing one third of France's exports overall.[4] **In the last quarter century, only high-growth SMEs and midcaps have created net employment.**

As at 30 March 2021, 25.3 million people were in salaried employment, of which 17.2 million in the market sector and 8.1 million in the non-market sector, including 5.8 million in the public sector[5]. Some 70% of mid-caps are majority-owned by French investors and 70% of these are family-owned. One in six midcaps has set up an apprentice training centre (a French CFA).

[3] 25.3 million people were in salaried employment as at 30 March 2021, of which 17.2 million in the market sector and 8.1 million in non-market sector, including 5.8 million in the public sector (Source: INSEE, Note dated 10 June 2021).
[4] 70% of midcaps are majority-owned by French investors and 70% of these are family-owned. One in six midcaps has set up an apprentice training centre (a French CFA).
[5] Source: INSEE, Note of 10 June 2021

2. Building back with private equity

Europe has been overtaken by China in the private equity arena, in both the biotech and IT sectors, and the United States has invested four times as much as Europe in these sectors. We must at least triple our efforts to halt France's economic decline both in Europe and at the global level.

All European institutional investors must therefore aim to triple their investments in private equity in the next 5 years if we are to avoid being sidelined in the ongoing New Industrial Revolution, which is accelerating sharply as China and the United States compete for global economic and technological domination.

The same challenge of tripling investment in private equity in 5 years also applies to French institutional investors, who invest very little in this sector, as shown in the following table.

Figure 15 - French institutional investors' asset allocation, 2019-2020

(By asset class, as a % of assets under management)

	2019	**2020**
Bonds	71.0	69.6
Equities	13.7	12.8
Real Estate	6.3	6.1
Cash & cash equivalents	3.9	4.1
Loans	2.0	3.3
Infrastructure	1.0	1.8
Private equity	**1.1**	**1.2**
Other	0.8	0.9
Alternative management	0.2	0.3

Total assets managed by investors who provided their asset allocations: €2,340 billion

Source: AF2I annual survey, June 2021

In 2020, investments made in French companies in the biotech and IT sectors, which together form the Tech sector, amounted to €6 billion ($6.8 billion based on the 2020 exchange rate). **As a percentage of GDP, France invested 3 times less than the United States in Tech in 2020 (23 times less in terms of dollars invested).** To keep pace with the global economic transformation, **annual equity investments in French Tech would need to increase three-fold**, to €18 billion per year.

In order to reindustrialise the country, private equity investments in France by private equity firms (and French institutional investors) need to increase from approximately €12 billion annually - all sectors combined - to at least €36 billion annually, including €15 billion per year in Tech.

On aggregate, assuming the following investment trajectory following a reform in autumn 2021**, in billions of euros: 12** in 2020, **15 in 2021**, 20 in 2022, 28 in 2023, **36 in 2024**, 40 annually in 2025 and 2026, **additional annual investment in private equity versus the 2021 level, to fund France's reindustrialisation across all production sectors, particularly Tech,** is as follows: 5 in 2022, 13 in 2023, 21 in 2024 and 25 annually in 2025 and -2026, for a total of **€89 billion over the 2022-2026 period**.

This additional €89 billion of private funds invested in private equity over the 2022-2026 period would lead to a five-year regeneration of France's productive fabric, provided that France's savings funds are appropriately allocated. This should be compared with the cost of France's response to the pandemic - €424 billion over the 2020-2022 period - only to return to the end-2019 level (see Olivier Dussopt's assessment dated 14 April 2021). It should also be considered in light of the **€2,279 billion held in life insurance funds and savings accounts** ("Livret A" savings accounts and "LDDS" sustainable development savings accounts).

This **additional €89 billion investment in corporate equity represents 3.90% - on aggregate over 5 years - of life insurance funds and savings accounts as of March-April 2021.**

It is well within reach. **Assets in life insurance funds at end-March 2021 amounted to €1,812 billion, up 4% year-on-year, while savings held in Livret A and LDDS accounts in April 2021 totalled €467 billion.** As a result of the pandemic, French households have surplus savings amounting to €160 billion. In order to mobilise this "idle money", however, a **determined strategy will be required to digitise and robotise the French economy and develop French tech massively over the 2022-2026 period.**

In order to direct French household savings towards equity investments, one proposal, for example, could be to set up a new type of PEA (French equity savings account), in addition to the existing PEA[6] and PEA-PME (French equity savings account dedicated to SMEs and midcaps). The new PEA would focus on equity investments in companies with fewer than 5,000 employees (at the time of investment), like the existing PEA-PME, but with an investment ceiling of €225,000 on top of the current €225,000 cap on the combined amount invested in a PEA and PEA-SME, subject to investing in tech companies (particularly biotechs, fintechs, agri-techs, environment-techs, etc.) with head offices in the European Union AND a French focus, and subject to holding the funds in the new **equity-oriented PEA** for more than 8 years[7]. The funds in these new accounts would be invested directly by the holder or indirectly through *private equity funds*. Income and capital gains would be tax-free, in return for a capital guarantee of 80% on the initial investment amount in private equity funds (this guarantee would not apply to funds invested directly by the holder). In the event of the holder's death, the equity-oriented PEA would be exempt of inheritance tax.[8]

[6] PEAs offered by banks and insurance companies. PEAs offered by banks allow shares in European companies to be acquired up to an investment cap of €150,000, while PEAs offered by insurance companies are unit-linked endowment policies (the insurer determines the products in the investment envelope, which include only eligible UCITS, not individual shares). Investments in a PEA-PME savings plan are capped at €225,000, but this limit also applies to the combined amount invested in a PEA and PEA-PME.

[7] A study by the *Investing Initiative* team shows that the mechanisms and incentives intended to influence how French households allocate their savings result in 80% of savings flows being directed towards the state and large companies (ADEME-France Stratégie, April 2017: *Fiscalité de l'épargne financière et orientation des investissements* - Taxation of financial savings and investment orientation).

8 This proposal differs from the one put forward by Michel Didier (Rexecode, Repères, June 2021), who proposes a quasi-PEA invested exclusively in units of sustainable growth funds investing in unlisted companies (health, digital, climate transition) intended for the average risk-averse saver, with a ceiling of €150,000 which is apparently included in the current €225,000 ceiling. These investment funds would be guaranteed capital funds and would remain liquid as the saver could exit at any time and recover the amount they originally invested. This quasi-PEA would invest almost exclusively in existing companies to 'support their development'. The units of these funds would be valued periodically with a capital guarantee and a liquidity guarantee. A public fund, in the form of a fund of funds, would ensure repayment of the original amount and hold the units until the fund is liquidated. This proposal, which is less impactful in terms of funds invested and is costly for the public purse, is complementary to the proposal set out in this document.

Conclusion

1. **Private equity as an asset class is highly profitable** on the whole, including in biotechs and medtechs.

2. Nominal long-term rates may increase, but **real long-term rates are likely to remain in negative territory or close to zero**, except in the event of economic and political disruption. The asset class therefore stands to benefit from the reallocation of assets by institutional investors in the medium term, which would be in their own interest, as well as that of savers.

3. **This is particularly true considering that even a small increase in nominal interest rates could trigger a slow bond market collapse, which also favours an increase in allocations to private equity.**

4. Sustainable growth can only be revived in France by leveraging **two drivers**:

    - significantly increase the number of large SMEs and midcaps, while supporting their growth through digitisation, robotisation and Europeanisation;
    - significantly increase the number of high-growth start-ups in order to produce more French unicorns.

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PARTNERS